SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2004

105-04353/

President's Message

Saskatchewan Telecommunications International, Inc. (SI) is incorporated under the laws of the Province of Saskatchewan. As a wholly owned subsidiary of the Saskatchewan Telecommunications Holding Corporation and with its Head office in Regina, it has a mandate to pursue telecommunications related business opportunities worldwide.

Since 1986, SaskTel International (SI) has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. Today SaskTel International, either independently or in partnership with other firms, helps its customers globally to develop, improve and expand their telecommunications systems. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the international marketplace and offer unbiased solutions to its customers.

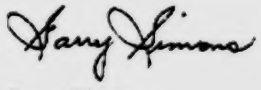
In addition to providing technological and software solutions to customers throughout the world, SaskTel International has, in recent years, brought successful investment opportunities to the SaskTel Holding Corporation. SaskTel International has been responsible for investments that have generated a net profit for SaskTel and the Province of Saskatchewan of more than $100 million. SaskTel International will continue to explore equity investments that are excellent opportunities.

In its own right SaskTel International has been profitable for thirteen consecutive years. Net income for 2004 exceeded $400 thousand, bringing total operating profits exclusive of investment gains since 1986 to more than $20 million. Total revenues for that same time period exceeded $240 million. SaskTel International's success in 2004 can largely be attributed to its Software organization which recently was recognized by the Telecom Research Institute as the "telecom provisioning king" after reviewing the software products provided by SI Software to its clients.

SaskTel International has also given over 500 employees the opportunity to work on international projects to further grow and enhance their skills for when they return to SaskTel. Since 1986 SaskTel International has given technical expertise to international markets by participating in over 60 projects in more than 30 countries. Presently, SI provides employment for 76 people.

Late in 2004, SI was awarded a $6.2 million contract by the Telecomunicações de Moçambique S.A.R.L. (TDM) to complete a rural network infrastructure project in Mozambique. SaskTel International will undertake the installation and commissioning of microwave backbone, rural radio and external line plant in the northern province of Tete.

In the future, SI believes the telecommunications market will show signs of positive growth and provide many opportunities for SI to secure project work throughout the world. In 2005, SI sees a definite telecoms turnaround that will be reflected in SI showing an increase in revenue and net income generation for the year.



Garry Simons

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2004 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP
Chartered Accountants

Regina, Canada
February 11, 2005

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2004	2003
Sales and consulting revenue	$10,028	$11,251
Direct expenses	6,405	7,577
Gross profit	3,623	3,674
Operating expenses	3,385	3,097
Restructuring charges	20	-
	3,405	3,097
Operating income	218	577
Other items	240	299
Net income	$458	$876

See accompanying notes

Consolidated Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2004	2003
Retained earnings, beginning of year	$7,746	$7,659
Net income	458	876
	8,204	8,535
Dividends	6,412	789
Retained earnings, end of year	$1,792	$7,746

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	**2004**	2003
Assets		
Current assets		
Cash and short-term investments (Note 3)	**$9,111**	$9,309
Accounts receivable	**782**	1,259
Work in process	**346**	-
Prepaid expenses	**45**	17
	10,284	10,585
Property, plant and equipment (Note 4)	**915**	308
Investment (Note 5)	**43**	-
	$11,242	$10,893
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable	**$2,038**	$1,358
Dividend payable	**6,412**	789
	8,450	2,147
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	**1,000**	1,000
Retained earnings	**1,792**	7,746
	2,792	8,746
	$11,242	$10,893

See accompanying notes

On behalf of the Board

Robert Watson

Randy Stephanson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	**2004**	2003
Cash provided by (used in):		
Operating activities		
Net income	**$458**	$876
Items not affecting cash (Note 6)	**76**	56
Net change in non-cash working capital items (Note 7)	**783**	478
	1,317	1,410
Financing activities		
Dividends paid	**(789)**	(913)
	(789)	(913)
Investing activities		
Property, plant and equipment expenditures	**(675)**	(44)
Equity investment acquired (Note 5)	**(51)**	-
	(726)	(44)
(Decrease) increase in cash	**(198)**	453
Cash and cash equivalents, beginning of year	**9,309**	8,856
Cash and cash equivalents, end of year	**$9,111**	$9,309
Comprised of:		
Cash	**$21**	$520
Short-term investments	**9,090**	8,789
	$9,111	$9,309

See accompanying notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Subsidiaries and investments

The consolidated financial statements include the accounts of the Corporation and its subsidiaries with all significant intercompany transactions and balances being eliminated. Investments in companies in which the Corporation has significant influence are accounted for by the equity method.

Declines in value below cost, of investments held using the equity method, are recognized as a charge to income when such declines are considered to be other than temporary.

The following is a summary of the operating entities under the Corporation's group of companies:

Name	Percentage ownership	Basis for inclusion
Operating entities:		
SaskTel International Consulting, Inc.	100%	Consolidation
Saskatchewan Telecommunications International (Tanzania) Limited	100%	Consolidation
Lootah SaskTel LLC	49%	Equity

The Corporation owns 100% of a non-operating entity, Battleford International, Inc.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Revenue recognition

Operating revenues for perpetual licenses are recognized on delivery or according to the terms of the license agreement. Where the arrangement includes multiple elements, perpetual license revenues are recognized on delivery, provided the undelivered elements are not essential to the functionality of the license and the Corporation has evidence of fair value for all the undelivered items. If payment is subject to customer acceptance, revenue is not recognized until customer acceptance or expiration of the acceptance period. Support and maintenance fees are recognized over the term of the contract. Fees for professional services, other than in the context of multiple element arrangements are recognized as services are rendered.

Revenues for turn-key telecommunication projects and consulting services are recognized using the percentage of completion method or the achievement of contract milestones. Amounts billed or paid in advance of services provided are recorded as deferred revenue.

Work in process

Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment

Office furniture and equipment, and software are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Office furniture and equipment	4 – 17 years
Software	5 years

With respect to software developed over time, the Corporation follows the policy of capitalizing related equipment, labour and installation costs as software under development. These costs are then depreciated on a basis consistent with the Corporation's depreciation policy from the date the asset is substantially completed and put into productive use.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of software. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Recent changes to accounting standards and policies

Derivative financial instruments

Derivative financial instruments are used by the Corporation in the management of its foreign currency exposure. The Corporation's policy is not to use derivative financial instruments for trading or speculative purposes.

The Corporation is party to certain derivative financial instruments, principally forward foreign exchange contracts (used to manage foreign currency exposures on export sales and consulting contracts). These instruments are not recognized in the consolidated financial statements on inception. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. The carrying amounts of derivative financial instruments, which comprise accrued gains and losses not yet realized are included in other receivables and prepaid expenses in the case of contracts in a gain position and in accounts payable and accrued liabilities in the case of contracts in a loss position.

The Corporation formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or anticipated transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation purchases forward foreign exchange contracts to hedge anticipated sales to customers in foreign countries and the related accounts receivable. Foreign exchange gains and losses on these contracts are recognized as an adjustment of the revenues when the sales are recorded. The portion of the premium or discount on the contract relating to the period prior to consummation of the sale is also recognized as an adjustment of the revenues when the sales are recorded; and the portion of the premium or discount relating to the resulting accounts receivable is amortized as an adjustment of interest expense over the remaining term of the contract.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the balance sheet and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income.

Notes to Consolidated Financial Statements

Note 3 – Cash and short-term investments

Short-term investments represent funds invested with Holdco at an average interest rate of 2.26% (2003 – 2.96%).

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2004	2003
			(Thousands of dollars)	
Office furniture and equipment	**$624**	**$255**	**$369**	$308
Software under development	**546**	-	**546**	-
	$1,170	**$255**	**$915**	$308

Note 5 – Investment

During 2004, the Corporation, along with a United Arab Emirates registered private company, incorporated a subsidiary corporation in the United Arab Emirates, Lootah SaskTel LLC (Lootah). Lootah will act as a marketing office and on securing contracts in the region. The Corporation owns 49% of the issued and outstanding shares of Lootah.

Note 6 – Items not affecting cash

	2004	2003
	(Thousands of dollars)	
Depreciation and amortization	**$68**	$56
Net loss in equity investee company	**8**	-
	$76	$56

Note 7 – Net change in non-cash working capital items

	2004	2003
	(Thousands of dollars)	
Accounts receivable	**$477**	$1,097
Prepaid expenses	**(28)**	(6)
Work in process	**(346)**	-
Accounts payable	**680**	(318)
Unearned revenue	**-**	(295)
	$783	$478

Notes to Consolidated Financial Statements

Note 8 – Financial instruments

Currency exposure

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in United States dollars, Great Britain pounds, Australia dollars, Tanzania schillings and United Arab Emirates dirhams. The Corporation enters into forward foreign exchange contracts to hedge its foreign currency exposure on foreign sales and consulting revenue. The contract(s) oblige the Corporation to sell foreign currency in the future at predetermined exchange rates. At December 31, 2004, the Corporation had purchased a contract to sell US $3 million in February, 2005 at an exchange rate of 1.2082.

Credit risk

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Fair value

The carrying amounts of cash and short-term investments, accounts receivable, accounts payable, and dividend payable approximate fair value due to the short-term nature of the financial instruments.

A forward foreign exchange contract, that has become favourable, constitutes an unrecognized financial asset of approximately $18,000.

Note 9 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2004	2003
	(Thousands of dollars)	
Sales and consulting revenue	**$2,285**	$2,204
Direct and operating expenses	**989**	893
Short-term investments	**9,090**	8,789
Accounts receivable	**74**	389
Accounts payable	**1,124**	129

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.